RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

Since 1958 •

Post Office Box 1759, La Jolla, California 92038

26 Letters Per Year • $250 annually

**July 6, 1994** **LETTER 1151**

**June 24 DJIA 3636.94; PTI 3990; A-D Ratio -6.85**
**June 30 DJIA 3624.96; PTI 3984; A-D Ratio -7.02**
**Dow Yield: 2.76%; Dow Price/Earnings: 24.7**
**Dow 200-day MA: 3740; Dow 30-day MA: 3743**
**Dow Times Book Value: 3.17; PTI 89-day MA: 4021**
**Percentage of Undervalued Blue-chips: 12%**
**Dow Low Risk Buy Index: -30; Gold-PTI: 946**
**Gold 40-week MA: 381**

**1994 -- SAY 'HELLO' TO THE BEAR:** Ah Mr. America, you work your fanny off to make a living, but alas, the feds and the state come along and tax away half your income. So you pay your food, housing and clothing bills, and what's left you spread around in "smart investments" -- stocks, bonds, mutual funds and a money market fund (the latter "just to be safe"). The bear market takes over -- your stocks go down, your bonds go down, your mutual funds goes down and the dollar is creamed. Result: you've lost across-the-board. So you pull in your horns, you tell your spouse to forget the new Mercedes, and you call off the September trip to Paris (the dollar won't buy anything in Europe anyway). Finally, you think about those damn taxes, and you swear that your vote will go to anyone who is not Bill Clinton.

**THE PICTURE:** Which way is the market headed? Why guess when we have clearly defined points to watch? For three months the D-J Averages have been locked into a frustrating trading range. On the downside we have the April bear market lows, **3593.35** for the Industrials, **1546.02** for the Transports. On the upside we have the recent June highs, **3814.83** for Industrials, **1661.45** for the Transports. Keep your eye on those points. Whichever direction **BOTH** Averages break will set the next important trend of the market. But remember, it's a bear market.

The A-D ratio (see page 2 chart) has been sinking to successive new bear market lows -- BUT WAIT -- the Averages have refused to confirm the string of new lows in the A-D. In order for the bear market to extend on the downside, BOTH the Dow and the Transports will also have to break to new lows. The refusal (so far) by the Averages to confirm the new A-D lows provides the technical conditions for a "summer rally." But will it happen?

The Utility Average is another story. It topped out last September and in barometric fashion, it has led the way down. The initial low for the Utilities was 177.76 recorded on April 12. The most recent (bear market) low was struck on June 24 at 176.71

My Primary Trend Index (PTI) has done a good job for us so far. It gave a bear signal on March 30 when it broke below its 89-day moving average, and it has continued in its downtrend ever since. Will the PTI continue down? I never predict the "predictor," I've learned just to watch it (see Late Notes, page 6, for an update).

Note: Joe Granville's latest count (nobody else does this) shows that **672** NYSE stocks are now within one point of recording new 52-week lows. Joe puts a lot of stock in these readings.

**BEAR MARKET:** This bear market is more subtle and more complex than any previous bear market I have lived through. For that reason, I want to make some background comments and observations.

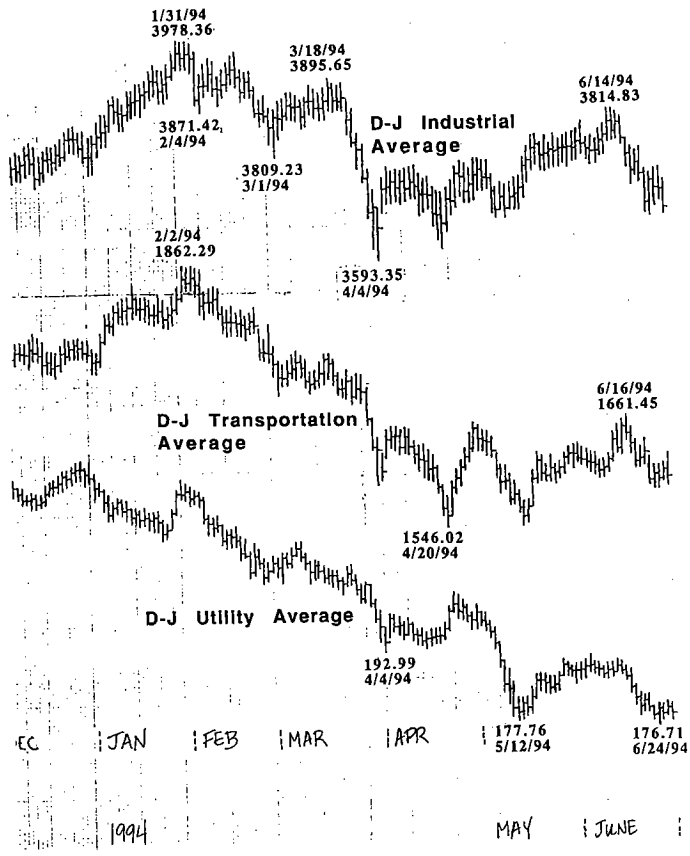
(1) At their inception, all bear markets are characterized by overvaluation -- but aside from overvaluation, each primary bear market is different. The background for this bear market is massive US debt and in recent years an absolutely monster US debt "bubble." The US as a nation (and I'm talking about government, states, cities, corporations and individuals) is choking on debt. This ocean of debt is sustainable as long as the world is willing to accept the currency that the debts are denominated in -- dollars.

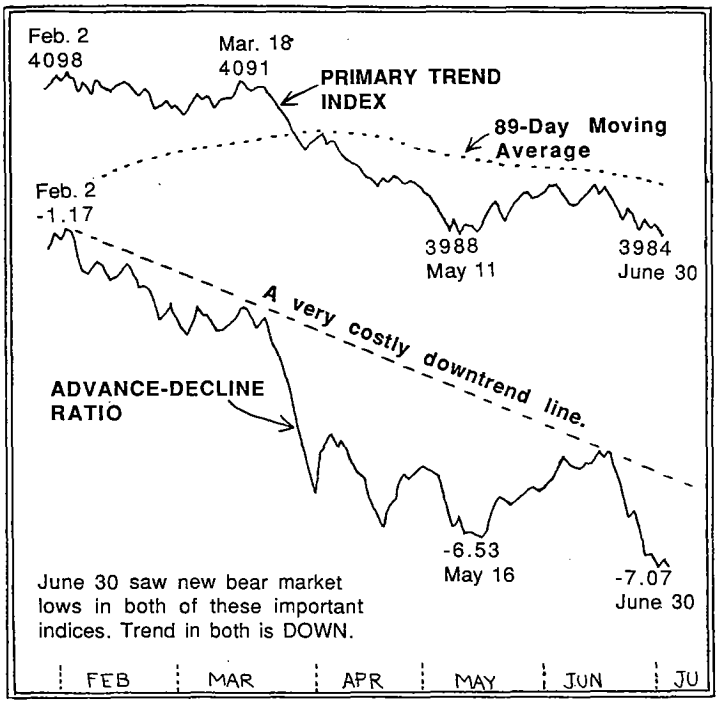
But international doubts are rising regarding the viability of the dollar. With the US producing additional debt at the rate of half a trillion dollars a year, thinking investors are skeptical regarding whether the dollar can hold together. As a result, large dollar-holders are running scared.

This whole concept is beyond the experience of the average American. Americans are used to dealing with corporate earnings, growth, dividends and business trends. But a declining dollar? What does a deteriorating dollar mean? To the average American who works hard to earn his dollars, a declining dollar means little or nothing. To overseas investors who hold tens of billions of dollars, a deteriorating dollar means crushing losses. To FOREX (foreign exchange) traders, a weak dollar should means profits -- that is, if you are positioned on the right side of the equation.

To the Fed (which manufactures the dollars as well as the inflation) the weak dollar is an embarrassment and a headache. How to protect the dollar when it's weak? Raise interest rates, intervene, keep talking optimistically, pray? As I said, it's one big headache.

To the Administration the weak dollar is both a mystery and a nightmare. The Administration wants to spend and spend and get re-elected. So what does the weak dollar mean to them? It means that they can't spend, and that they may not get re-elected. And it






means international distrust. So God save the nation. God save the dollar. And God save the liberals and the economists and the politicians and no-nothings who have gotten us into this mess.

(2) The big Averages such as the Dow and the S&P 500 are still extremely overvalued. I base this on that most trustworthy of all gauges, valuation or price times dividends. For instance, the Dow is still selling at over **37 times its dividends** (which produces an absurdly low yield of 2.70%). Historically, such overvaluation is characteristic of major tops.

(3) The public is in this market to a greater extent than anything ever seen before. Mutual funds have proliferated like an army of rabbits in heat, and most authorities have lost count of the total of funds (now above 5,000). One analyst estimates that 70% of the total in equity fund assets consists of money from people who have entered the market during the last three years. His further estimate was that the break-even point for this "new fund money" is around 3460 on the Dow. In other words, below 3460, roughly 70% of all equity mutual fund money would be under water.

(4) The minuscule yield on the Dow suggests a high degree of confidence in the stock market. ("Why hold stocks yielding less than T-bills unless you are highly confident regarding stocks?") But paradoxically, today there is also a high degree of skepticism or even anxiety regarding the market. The public isn't dumping its mutual funds yet, but it has pulled back on its buying. And that's a beginning.

(5) The major stock averages on the NYSE continue to act considerably better than the run of stocks. Note that the Advance-Decline ratio recorded new lows last week, but the Dow and the Transports are still a good distance from their bear market lows. Will the superior strength of the Averages set off a summer rally, or will the greater weakness of the majority of stocks pull the Averages down? At this point, it looks as though the Averages have the upper hand.

(6) Any real market strength ahead would, I believe, be unexpected at this juncture. A summer rally, if it arrives, could take the market to a fall "top-out peak." From such a peak, we could see a full-fledged, really powerful bear market decline.

(7) Overall, however, we must keep in mind that the primary trend of the stock market is down. As long as this is true, we must remain skeptical of all upside action and upside projections. Bear markets have a habit of turning hopes into losses.

(8) One very interesting facet of the current picture was brought out in Joe Granville's recent report. Joe notes that the divisor for the Dow has now dropped down to a very low 0.39. This renders the Dow extremely volatile. As a comparison, when the 30-stock Dow was originated the divisor was 30. By 1939 the divisor had dropped to 15.1. By 1950 it had dropped to 8.92. By 1980 it had dropped to 1.46.

Today the divisor is 0.39. Note: to compute the Dow add up the price of the 30 stocks and then divide by the divisor. As an example of today's volatility, if each Dow stock was to advance by only 1 point (30 divided by 0.39) the Dow would rise by 77 points.

**BONDS, BONDS, BONDS**: Bill Carville, one of Clinton's election advisors, is quoted as saying, *"I used to think if there were reincarnation I wanted to come back as the president or the pope. But now I want to come back as the bond market. Because the bond market can intimidate everybody."* Russell comment: Yeah Bill, you're just finding that out? But let's alter your statement slightly -- the bond market can intimidate everybody in a nation loaded with total debt of $15.9 trillion. Debt is the biggest thing in America. Debt is the dog and the US economy is now the tail, so why wouldn't the sagging bond market intimidate everybody?

**DOLLAR, DOLLAR, THE DOLLAR**: Near term: It's taken a major beating, but now it's oversold, and it could be set to rally. The commercials (big operators) are now very heavily short the Swissie and the British pound. When the commercial positions are this lopsided, they tend to be right. So we'll watch for a dollar rally.

Next, let's examine a bit of the background for the dollar. The US federal debt is pushing rapidly towards $5 trillion. Furthermore, the US is running federal deficits of over $1 billion a day. The current account (which is the broadest measure of US trade and services) is running at a crushing annualized rate of a negative $148 billion. Aside from the debts, high taxes and low interest rates have caused foreigners to distrust the US economic situation. And Bill Clinton and his erratic crew have drawn a vote of no confidence from the international community.

Wait, there's more. The US output now accounts for about 22% of world production. But 65% of the world's currency reserves are held in dollars. This ratio is a holdover from "the old days" when the US economy dominated the world. But today central banks are willing to hold fewer and fewer dollar reserves, whereas the D-mark and the yen are rising in international preference.

Finally, the administration has, by its words and actions, indicated that the economy will take precedence over a stable dollar.

Considering all the above, the direction of the dollar, long-term, is down. But as I said, for now the dollar is over-sold. It might be just tired of going down.

**Finally, let's get the following straight**: (1) A nation's currency is the single best barometer of its international economic standing. (2) The level of interest rates (international comparisons) are one important factor behind the strength or weakness in a nation's currency. (3) The weaker the fundamentals behind a currency, the higher its relative interest rates must be in order to attract international money. (4) The long-term fundamentals behind the dollar are weak, the weakness being that the US continues to manufacture too many dollars, dollars produced to cover its interminable deficits. (5) Intervention is not a fundamental in stabilizing a currency, but higher interest rates are. (6) The period of (artificially manipulated) low interest rates in the US is over. (7) The FOREX (foreign exchange) market trades over a trillion dollars a day; it's more powerful than all the central banks and treasuries of the world taken together. (8) The total of US debt is bigger and more powerful than the Fed.

Summing up, it's a new world we're living in, a world dominated by debt and paper money, and we darn well better get used to it.

**INVESTMENT POSITION:** This is 1994, and we're living in the new global economy. Which means that you have to think of your wealth in terms of international purchasing power. If your wealth is denominated in dollars, you know what that means -- you're poorer now than you were a few months ago. Ah well . . .

When I first announced that the primary trend had turned down and that a bear market had started, I added that "in a bear market the person who loses the least is the winner."

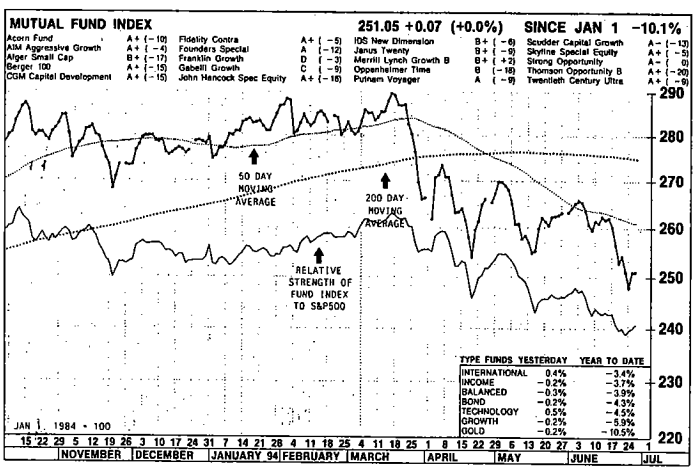
I have subscribers who have been with me since I first started writing these Letters (back in 1958), and they undoubtedly knew what I was talking about when I made that statement. But to newer subscribers who have never lived through a bear market, I'm sure that my warnings sounded like so much unwarranted and needless pessimism. "I'm fine, I'm mostly in bonds, so why worry!", one subscriber told me. Another said, "With the torrent of mutual fund buying coming in, this market isn't going down very far."

Now the losses are beginning to accumulate, and I haven't heard any objections to my bearishness recently. But I warn subscribers, as I see it this is going to be a long, deceptive, very difficult bear market. It will not have to do with just declining trends in business, it will not have to do with just a cutback in consumer spending. No, unfortunately, this bear market has to do with decades of debt accumulation, decades of political arrogance and ineptness, and decades of unfunded entitlements and government "pork."

What to do. If you haven't cleaned house yet (and I've been telling subscribers to get in cash and gold for months) it's not too late to do so. You don't want to sell, because it will mean taking a loss? Listen, the market couldn't care less whether selling means that you're going to take a juicy profit or a costly loss. The market is totally impersonal, and it doesn't care a whit for you or me. So take a profit, take a loss, but get liquid. This is a primary bear market, and it's just warming up.

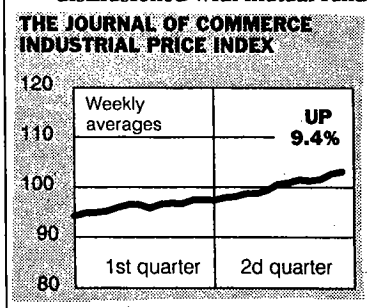
**CHARTS:** Here are a few charts that I would like my subscribers to study. The first is the *Investor's Business Daily* Mutual Fund Index. This Index is a composite of 20 leading "growth" mutual funds. The path of the Index in 1994 has been both significant and instructive. Joe Granville terms this "the most bearish of all charts." I don't disagree.

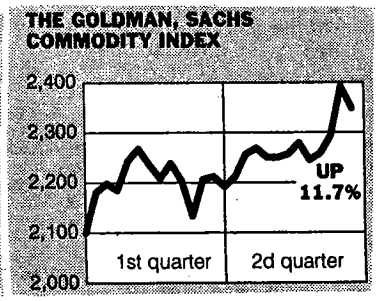
In late-March the 50-day Moving Average (MA) turned down, an early hint of potential trouble. In late-April the 50-day MA crossed below the 200-day MA, and I wrote at the time that this was a "bear market signal" for the mutual funds. In mid-May the 200-day MA turned down, a further bearish confirmation.


MUTUAL FUND INDEX
251.05 +0.07 (+0.0%)
SINCE JAN 1 -10.1%
50 DAY MOVING AVERAGE
200 DAY MOVING AVERAGE
RELATIVE STRENGTH OF FUND INDEX TO S&P500
TYPE FUNDS YESTERDAY YEAR TO DATE
INTERNATIONAL 0.4% -3.4%
INCOME -0.2% -3.7%
BALANCED -0.3% -3.9%
BOND -0.2% -4.3%
TECHNOLOGY 0.5% -4.5%
GROWTH -0.2% -5.9%
GOLD -0.2% -10.5%
JAN 1, 1984 = 100
NOVEMBER DECEMBER JANUARY 94 FEBRUARY MARCH APRIL MAY JUNE JUL

In the meantime, the relative strength line (RS) for the Mutual Fund Index turned down in March and as of last week it broke to a low for the year. The declining trend in the RS Line means that these leading growth funds have been acting worse than the S&P 500. When the top growth funds lose value faster than the declining S&P 500, it's almost always a bearish sign. It implies an extremely difficult (and costly) situation -- which is a perfect description of this bear market.

Note that these 20 leading mutual funds have, on average, lost 11.2% since the beginning of the year. The mutual fund buying public has not yet bailed out of their funds -- they have simply cut back on their purchases. My prediction: as the bear market wears on a great many funds will collapse and others will merge. And before the bear market is over, the public will be completely disillusioned with mutual funds.

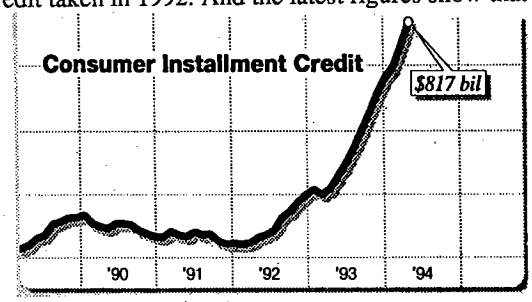



The second chart (from the *NY Times*) shows two inflation/deflation indices along with their components. There's been an ongoing argument about whether the US is headed for rising inflation or not. Certainly, the price of raw materials and agricultural commodities has been going up. The question: Will what we see on these charts be translated into rising inflation on the consumer level? Or are these charts simply telling us that there is a shift from financial assets into hard (tangible) assets?

Two important trends are operating here, and the outcome is not clear. If the dollar continues to slide, Americans will pay more for imports, and our insatiable appetite for foreign goods will trigger inflation in the US. But if the bear market continues it will impact on the income and assets of Americans -- and that's deflationary.

The third chart (courtesy of *Investor's Business Daily*) shows what American consumers do best -- borrow money. But the figures are simply amazing. Last year US consumers took on an additional $48 billion in consumer installment debt, six times the amount of new credit taken in 1992. And the latest figures show that in April




consumers took on an additional $8.8 billion in new credit as the annual rate of credit additions soared to 13.2%.

What's happening? Are America's consumers just wildly optimistic or are they taking on all this credit because they're running out of funds while at the same time refusing to cut back on spending? We do know that the US savings rate has dropped below 4%. The whole picture suggests that US consumers are loaded with debt and in no position to weather a storm. But with a bear market in place, the storm clouds are forming.

* *

**NOTES & QUOTES:** The bear market is international in scope. So far, London is down 18% from its high, Germany has lost 13% from its high and Paris has lost 19%. Japan, which has been slaughtered over the past four years, is up a bit for the year, and Johannesburg has been the winner (with international money now pouring into S. Africa).

* *

The *WSJ* did a study of eight proposed health plans. The *WSJ* counted the number of times the following words were used in each plan -- ban, enforce, fine, limit, obligation, penalty, prison, prohibit, require, restrict, sanction. The Gramm/Santorum used all these words the least -- only 86 times. The Clinton plan used these words the most -- 1,494 times. The Clinton plan used the word "enforce" 83 times, "limit" 231 times, "obligation" 111 times and "require" 901 times. Does that give you an idea of how much the Clinton's plan will restrict our freedom?

* *

Famous Last Words: "I have never been able to shake the feeling that a strong currency is a good thing, and that it is typically a sign of vigor and strength and competitiveness." Paul Volcker, ex-Fed Chairman, 1992.

## Foreigners Fed Up With the U.S. Dollar

The real reason the dollar has been sinking like a stone is not emotional questions about Clinton Administration foreign policy or pending trade wars. It's simply that foreign governments and private investors have been dumping U.S. stocks, bonds and Treasury securities for most of this year—$38 billion in the first quarter, possibly as much again in April, May and June, for which statistics are not yet available.

* *

Here's a letter just received from a subscriber: "Dear Mr. Russell, I just returned from Europe and was catching up on your Letters of June 8 and 23. In your June 8 Letter you were talking about the purchasing power of the dollar and your comment was 'Europe . . . Five dollar coffee anyone?' You hit it right on the mark (or should I say franc). My cheapest cup of coffee was in Edinburgh, Scotland (one pound sterling = $1.50). The most expensive was in Paris at 26 French francs -- just about $5. Keep up the good work, R. B., Las Vegas."

* *

With all the talk about the "information super-highway" and "cyberspace," a poll of 3,000 users was taken (multiple responses were allowed). Asked about their favorite on-line activity, 56% said chatting, 53% said computer support, 50% said games, 35% said business information, and 22% said sex talk. Is this the way of the future?

* *

I continue to receive letters from subscribers relating their experiences with EDTA chelation. Heart problems and attacks are still the number one health hazard for Americans (particularly men), so I want (again) to write about the "forbidden" and "secret" chelation treatment. Here's part of a (typical) letter received from a subscriber last week -- "Dear Richard, Re: chelation, I want to tell you about my brother's experience. He developed heart trouble a few years ago (with quite a bit of pain). He was sent to Emory, Atlanta, for evaluation. Eventually it got worse, and his doctor wanted to send him back down (for surgery), but my brother said 'no.' The doctor told him in another two weeks it could be too late, and he could not give him any more medicine as he was now at maximum. My brother was at the stage where he could not walk across the room to adjust his TV without getting heart pains. He found a doctor for chelation treatment (his wife said it saved his life). When his regular doctor found out he would not see him anymore. Besides chelation he is on a 10% fat diet. He now exercises -- walks two hours a day, does calisthenics (five times a week). He does not now take any heart medication (he is now 70 years old), and he still takes some chelation treatments. Yours truly, P.J.K. Bridgewater, N.J."

I have received many letters comparable to the one above. I include this letter because it may help some of my subscribers (a good many of whom, I know, are suffering from heart troubles). Personally, I had a heart attack in 1970, I had a quintuple by-pass about 12 years ago. I had a second mild heart attack a year ago (at which time they implanted a "stent"). I finally said "enough," and I started chelation treatments. This week I had my 27th treatment (I'm going to take 40). Angina (chest pains), which I used to get regularly, has now about stopped. I had constant pain in my feet, and that has stopped. Now I get on my treadmill and do 30 minutes of fast walking every day, I feel good, and I have a lot more energy than before. Is it my imagination? Are all the positive letters I receive about chelation pure malarkey? Is chelation just alternative quackery as most of the medical profession claims? My opinion -- it's a cover-up (and most doctors are just repeating hearsay or something they've read somewhere -- they've had no personal experience with EDTA chelation and many don't even know what it is). The medical profession is in denial, it's afraid of chelation, just as they're afraid of most "alternative" medicine. If you, as a doctor, chelate patients you are ostracized by orthodox physicians. It's disgusting, and I blame the medical profession for it. Listen, I remember when doctors were dead set against breast feeding and then against rooming-in for infants. The cost of heart operations in the US runs into the billions of dollars, it's an industry (to say nothing of the pain and agony that the patients go through). Meanwhile, EDTA chelation remains one of the best-kept secrets in medicine. Listen, I've had the heart attacks, I've had the operations, I've had chelation, I've had the experience. I also have the right to talk, and I'll continue to talk. (By the way, did you know that New Zealand requires trial chelation treatments before by-pass surgery?)

* *

O. J. Simpson -- he was a celebrity but not a hero. What Magic Johnson did for AIDS, O. J. is sure to do for wife-beating (politely referred to as "spousal abuse"). We know O. J. was a wife beater, we know he threatened his wife, but a murderer -- not proven yet. As for the trial, my guess is that the public is fed up with "the murderer as victim" defense, and I'm not sure a jury will want to hear another defense based on temporary insanity or a miserable childhood. Up to now wife-beating's been covered up as "none of your business" and as "a family affair." I have a feeling that's going to be history.

* *

It's hot in California, and I'm in a complaining mood. What am I going to complain about next? It's Disney. I'm really pleased that top historians and leading Virginians are trying to stop Disney from putting up a park in Virginia next to an historic Civil War battleground. Why turn hallowed grounds where Americans died into another Disney-ville? In my opinion Disney is going nuts trying to Disnify the world. What's next, a Disney Park on the shores of Normandy? A Disney-city at Arlington Cemetery? Enough already. The French have had it with Euro-Disney, and I've had it with Amero-Disney. By the way, Euro-Disney stock came out at 72 francs; it's now down 82% from its high.

* *

The boss of the "Trader Joe's" chain lives out here in California, and the boss knows what he's doing. He's got 62 of these amazing stores, and each store carries a large number of great foods (mostly low-fat or no fat) plus all kinds of wines, liquors, vinegars, and ready-to-eat delicious morsels. The prices -- they're rock bottom at Trader Joe's. One item TJ carries is a veggie-hamburger (no animal fat at all), and they're delicious. In my opinion the veggie-for meat thing is going to gather greater consumer acceptance. The meat substitutes are getting increasingly appetizing. (30 cases of Boca Burgers have even been shipped to the White House -- Boca Burgers are substitute burgers made by Sun Foods of Boca Raton, FL.) Check for soy and veggie products at your supermarket. Non-fat is the wave of the present.

* *

*Human Events* (the national conservative weekly newspaper) notes that liberalism is wiping out the Jews. According to a recent piece, *"American Jews have three king-sized problems -- intermarriage, secularism and assimilation. Due to these trends, we have become the incredible shrinking people. While the overall population increased 22% between 1970 and 1990, Jewish demographic growth was an insignificant 1.8%."* Yep, the Jews may become an endangered species. Example: my two oldest daughters have both married Catholics (although in truth the ladies were only 75% Jewish). But their kids will not see themselves as Jews. My youngest daughter is only 50% Jewish, as is my son. I've said this before, but do you know what an Anti-Semite's worst nightmare is? Of course you do, it's a world that has run out of Jews.

* *

Bob Dole is looking increasingly like the leading Republican candidate for president. Ol' Bob appears a bit cranky, but after Clinton's incessant smiling (Clinton's always smiling) a bit of crankiness might be refreshing. Dole, now 70, would be 73 if or

when he's elected. So what, Picasso was still chasing women when he was 90, George Burns is almost 100 and still telling jokes, and Rose Kennedy at 103 outlived most of her clan. Dole looks in good shape -- I'll vote for him.

* *

The tennis frenzy has already worn down. Most of the major tennis suppliers are hurting, but what else is happening? Now the June issue of *Golf Digest* tells us that golf as a public recreation could be on the verge of a crisis. Although new golf courses are opening at the rate of almost one a day, there are not enough courses in populated metropolitan areas and soaring greens fees are pricing many people out of the game. The median price of a weekend round at US municipal courses is $14 and a weekend guest round at a private course is $30. Furthermore, courses are often jammed, turning people off from playing the game. Ah well, there's always soccer.

By the way, I watched many of the World Cup games, and I have to say that I found big time soccer great -- a fascinating game. And the African teams with drums beating throughout the games, amazing. I think (I hope) that the new US 12-team professional soccer league will catch on big-time (the World Cup was brought to the US on condition that we start a major professional soccer league here).

* *

Barbra Streisand received rave reviews from the critics on her Madison Square Garden appearance in NYC. But everyone wondered about the dearth of big names in the front seats. Columnist Liz Smith said here's what she heard, "Frankly, the tickets were too expensive. Stars aren't used to having to pay to go anywhere. So, with no free tickets, they stayed away in droves."

* *

Now that gambling is taking over America, it might be worthwhile to discuss a few of the popular games. The slots: odds are poor, and the casinos make most of their money from slots (that's all you have to know about the "one-armed bandits."). Roulette: odds are slightly in favor of the house. On a single number or color the odds favor the house 37 to 1, and the house pays off 35 to 1, so the house makes 26 cents on every $5 bet. Blackjack (Twenty-One): the house has a slight edge because it wins if both the player and dealer go bust (or over 21). Craps: the odds for experienced players are about 51 to 49 in favor of the house. For crap wana-players, you throw two dice and if you throw a natural (7 or 11) on your first throw you win. If you shoot a 2,3 or 12 on the first throw you lose. If you throw a 4,5,6,8,9 or 10 you keep shooting until you hit one of those numbers. If you hit, you win, but if you throw a 7 you lose. Players bet on whether the thrower will win or "crap out."

The one thing the casino wants you to do is to keep playing, the longer the better. Time favors the casino, or to put it poetically, "The more you play, the more you'll pay." Good luck.

* *

Gad, there's a whole industry dedicated to despising Bill Clinton. One published out here is *"Slick Times"* [(800)362-4788]. I get everything that's published (just about) and I get this one too. *Slick* gives each new subscriber a Clinton "three-dollar bill." It looks like this. The back of the bill features a picture of the White House with a "for sale" sign on it.

* *

*Financial World* (July 5) lists the top money earners on Wall Street for 1993 (a few of them are subscribers to these Letters, if that gives you any encouragement). Amazingly, nine of the monster-earners are with Soros Fund Management (George Soros earned "at least" $1.1 billion), and three are with Tiger Management (Julian Robertson, the boss, earned "at least" $500 million). To make the top 100 list you had to have made at least $10 million. My old friend, Marty Zweig, is on the list; they put him down as having earned "at least $29 million." Marty, next time you can pay for lunch.

* *

George Bushnell, president-elect of the American Bar Association, favors decriminalizing drugs, all drugs. "One of the main reasons for crime," he says, "is that people need money to buy the stuff." I agree. The drug users are medical or psychological cases, the dealers and pushers are in for the profits. Take the profits out of drugs, and the drug dealers would have to work for a living. Says Bushnell, the popular "three strikes and you're out" proposal is a "glitzy political response to the fear that grips the nation." Building more prisons, he says, is "a rathole for money." He adds that the community policing program which will put 100,000 more cops on the street is "a phoney and a fraud." Translation -- it won't happen.

* *

Wyatt Earp is popular again (as per the new three hour and 15-minute movie). Earp lived in San Diego during the late-1880s. He earned his living as a deputy US Marshal and private investigator, but he made his fortune at the gambling tables and in real estate. Earp bought a few square blocks of real estate in San Diego; he also opened three gambling halls in downtown San Diego, where he made as much as $1,000 a night on the gambling. In 1888 he listed his net worth at $30,000, a lot of money in those days. He also bought and sold race horses, but Earp probably lost most of his money in 1889 when the boom collapsed in San Diego. By the early 1890s Earp was presumably broke, so next he moved on to the mining fields of Alaska. Earp died in L.A. in 1929 at the age of 71. Two years later, the book, "Wyatt Earp, Frontier Marshal," was published, and the legend was born. The Earp legend was built in Tombstone, but he made his money here in San Diego.

* *

Good News Dept: The Tax Foundation announces that Americans now pay a total of $2 trillion in taxes. The average American spends $3,800 a year for food, housing and clothing, but he pays $7,927 in taxes. Russell opinion -- the whole tax thing has reached the insanity phase. What are we getting for all our taxes? Answer -- **BIG** government . . . As recently as 1986 the US was a net creditor nation; we had $34.6 billion more in assets than we owed to foreigners. Things change. The US is now the world's biggest debtor; foreigners own $556 billion more in real estate, stocks, and bonds than US investors own in foreign lands. Last year the US position increased negatively by 9.4%.

---

## *Panel on Benefits Spending Sees Storm Brewing on Costs*

By ROBERT PEAR
Special to The New York Times

WASHINGTON, June 13 — The chairman of a new Federal commission studying benefit programs like Medicare and Social Security said today that he saw "a serious fiscal storm on the horizon" unless Congress and President Clinton took swift action to control the growth of such spending.

The chairman of the panel, Senator Bob Kerrey [illegible]

suggest cutbacks in popular Federal benefit programs, and such proposals could put President Clinton in an awkward political situation this fall.

**Defining the Problem**

Senator Kerrey said the commission would issue a preliminary report in August, with final recommendations to follow in December, so Mr. Clinton could use the proposals in developing his next budget.

Mr. Kerrey and Mr. [illegible]

**CRISES:** Merrill Lynch has come out with a very important special study entitled, *"Saving the American Dream."* I feel the study is well worth reviewing here.

The crisis that Merrill foresees consists of two major problems. The first is the gigantic series of unfunded promises that the US government has made. These promises include Social Security, Medicare, federal pension payments, unemployment benefits and numerous others. Says Merrill, these promises *"will grow increasingly expensive as the Baby Boom generation approaches retirement. Unless changes are made, the burden of paying for government promises could saddle future generations with a net lifetime tax rate of* ***82 percent*** *-- and could create a high wall between future Americans and the American dream."*

In other words, unfunded potential liabilities (promises) have careened into outer space. Our government has made so many unfunded promises that to carry them out would force future generations to pay out better than four-fifths of their income in federal taxes (and that doesn't include state and local taxes).

The obvious answer to all this insanity is that the pay-offs will have to be cut back drastically. There's no way that we're going to receive all those goodies that our government promised us with their unfunded largesse. When the time comes to solve these problems, people are going to be shocked and disheartened -- as they are beginning to be now with the higher taxes being paid on Social Security.

The second crisis Merrill talks about is the collapse in US savings. The savings rate in the US is now down to around 4%. Says the study,*"Even if all the government's existing promises are kept -- and taxes never rise -- our nation's dismal savings performance could leave 46 million Baby Boomers with growth-adjusted retirement living standards that are lower than those of today's median 65-year-olds. Further, if some of the government's unfunded promises fail to materialize, or if taxes rise during the decades ahead, the Baby Boomers retirement prospects could deteriorate even more."*

To sum up briefly, the study states that the "recognized" crisis is the current federal debt and the ongoing federal deficits. But the "hidden" crisis, the great underlying problem, is the mountain of unfunded future promises.

Russell comment: To me, the picture as painted by the Merrill study adds up to a vastly lowered standard of living for future generations. Either "our kids" must do with much less or the nation must face national bankruptcy. But how, one asks, can a sovereign nation like the US go bankrupt, since it can print all the money it needs?

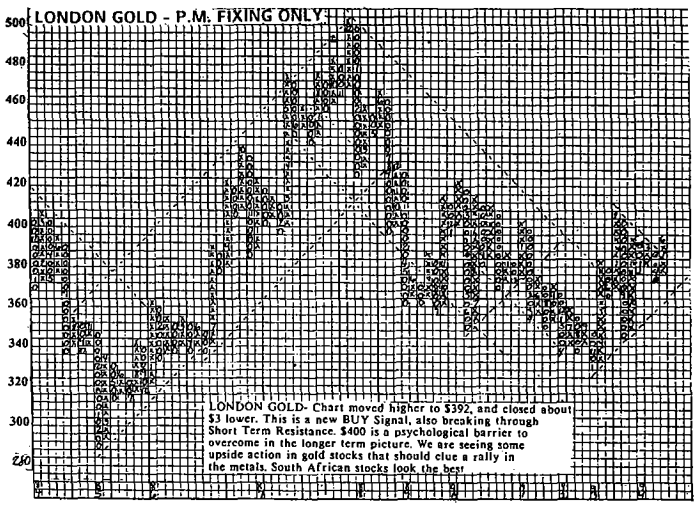
The answer is that its currency can go bankrupt, and thus the dollar could become a pariah in the eyes of the rest of the world. Nobody will want to sell goods to the US in return for collapsing or worthless dollars. And of course, at that time, gold will really come into its own, since the dollar value of gold will rise to the sky.

The truth is that nobody knows exactly what will happen when, somewhere ahead, the US is confronted by the fact that it has already spent its future. The one thing I am convinced of, however, is that the dollar can not possibly hold its value. The purchasing power of the dollar is fated to accelerate downward as the problems outlined above become increasingly obvious.

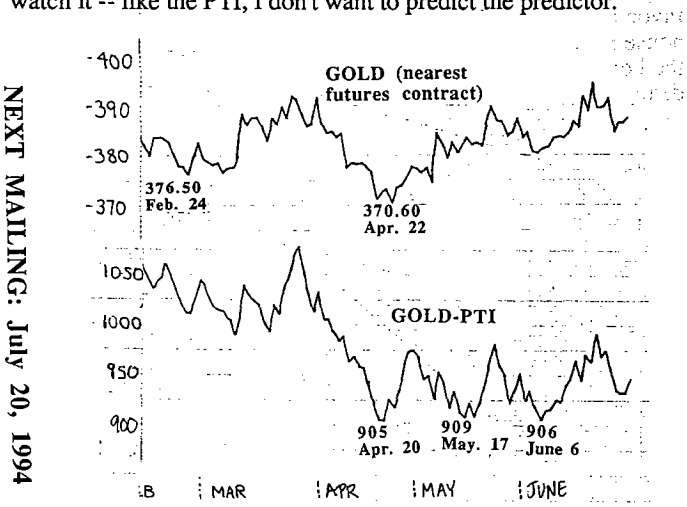
**GOLD:** Nobody ever said it would be easy. But think of it this way -- while many stocks have been smashed and many mutual funds have been hit hard and most bonds have been whacked, gold and the gold stocks have at least tended to hold their own here in 1994. And there's something to be said for "not losing money" when everything else is going down.

But will gold and the gold shares ever take off on the upside? In due time, yes, but for now it's obvious that the people who are hedging against the dollar are doing it with the currencies -- the yen, the D-mark, the Swiss and the pound. The concept -- the currencies are super-liquid, they pay interest, and most big "players" feel more comfortable in D-marks or yen than they do in gold.

Ultimately, ALL paper (fiat) currencies lose purchasing power and the "hard" currencies will be no exceptions. The point & figure chart of gold (chart courtesy of *Chartcraft,* PO Box 2046, New Rochelle, NY 10801), despite all the backing-and-filling, remains bullish. All the action since the '93 low has taken place above the most recent rising trendline. It would take a London fix at 396 for a bullish breakout. It's clear that the Fed does not want gold heading higher, and with almost clock-like regularity every time gold pushes above 400 "somebody" or "something" knocks it back into the 380s. You know something -- I'm really getting suspicious. Note: Central banks own about 1,125 million ounces of gold, about 30% of all the gold ever mined. In a recent speech, Terry Smeeton (chief manager of gold and foreign exchange for the Bank of England) said, "My office operates virtually every day for a wide range of central banks, as well as for our own account. In total, I estimate that over 50 central banks are involved in the leasing market." Smeeton suggested that at least 20 central banks are now engaged in sophisticated operations in the gold market, not just leasing, but swaps, options and futures.


LONDON GOLD - P.M. FIXING ONLY
500
480
460
440
420
400
380
360
340
320
300
280
LONDON GOLD- Chart moved higher to $392, and closed about $3 lower. This is a new BUY Signal, also breaking through Short Term Resistance. $400 is a psychological barrier to overcome in the longer term picture. We are seeing some upside action in gold stocks that should clue a rally in the metals. South African stocks look the best

Turning to the Gold-PTI, it's been an accurate barometer, but so far it hasn't told a story that gold-philes want to hear. We have the three lows (April, May, June) in the 905-909 area. It looks like we're in the process of forming a fourth low in that area. We'll watch it -- like the PTI, I don't want to predict the predictor.




NEXT MAILING: July 20, 1994

**LATE NOTES:** The bear is beginning to take his toll. But he's a sneaky devil, and up to now he's been concentrating on the lesser lights -- like new lows in the NASDAQ Composite, the Russell 2000, and the Midcap 400. Last week we also (ominously) saw new lows on the A-D ratio (NYSE) and the PTI.

I feel sort of sheepish in continuing to tell subscribers (ad nauseam) to *"get liquid, get in cash, it's a primary bear market."* Yes, I know that Secretary Bentsen says everything's rosy. Yes, I know that Fedhead Greenspan says it's the best economy in 20 years -- but the market couldn't care less about the Washington cheering section. The stock market is looking ahead, and it doesn't like what it sees. Personally, I've learned the hard way to believe Wall Street, not Washington; I suggest that you do the same.

For the first time in history a president is asking for donations for a "Legal Defense Fund" (it's supposed to help pay Clinton's legal expenses). Are you sending money in? I think I'm going to pass.